



JOHN NAIMO
ACTING AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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June 25, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: John Naimo
Acting Auditor-Controller

A handwritten signature in black ink that reads "John Naimo".

SUBJECT: **CONNECTIONS FOR CHILDREN – A DEPARTMENT OF PUBLIC
SOCIAL SERVICES CALWORKS STAGE ONE CHILD CARE
SERVICES PROGRAM PROVIDER – CONTRACT COMPLIANCE
REVIEW**

We completed a program and fiscal review of Connections for Children (CFC or Agency), which covered a sample of transactions from Fiscal Year (FY) 2012-13. The Department of Public Social Services (DPSS) contracts with CFC, a non-profit organization, to operate the CalWORKs Stage One Child Care Services (Stage One) Program, which helps families access immediate, quality, and affordable child care as they move through their Welfare-to-Work activities.

The purpose of our review was to determine whether CFC appropriately accounted for and spent Stage One Program funds to provide the services outlined in their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with their contract and other applicable guidelines.

DPSS paid CFC a fixed monthly fee of \$250, and a negotiated monthly rate of \$160 per participant to fund Stage One Program operating costs. The contract requires the Agency to return or reinvest any unspent revenue. In addition, once a participant chooses a child care provider, CFC develops a rate agreement, and pays the child care provider directly. DPSS reimburses CFC for these costs at the rates specified in the contract. The rates vary based on the needs of the participant. DPSS paid CFC approximately \$1.6 million during FY 2012-13. CFC provides services to residents of the First, Second, Third, and Fourth Supervisorial Districts.

Results of Review

CFC provided services to eligible participants, recorded and deposited DPSS payments timely, and Agency staff had the required qualifications. However, the Agency did not always comply with all of the County contract requirements. Specifically, CFC:

- Inappropriately allocated \$19,691 in payroll and non-payroll expenditures to the Stage One Program based on budgets and estimates, instead of using allowable methods based on actual conditions as required.

CFC's attached response indicates that they will use allowable methods to allocate payroll costs to the Stage One Program.

- Did not maintain a complete and accurate fixed assets and equipment list, did not conduct complete semi-annual inventories, and did not track the disposal of Stage One Program equipment. In addition, the Agency did not obtain approval from DPSS to dispose of any items purchased with Stage One Program funds, or return the items to DPSS as required.

CFC's attached response indicates that they will maintain a complete and accurate fixed assets and equipment list, and will update their inventory and disposal procedures to comply with the County contract requirements.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with CFC and DPSS in May 2014. CFC's attached response indicates agreement with our findings and recommendations. DPSS will work with CFC to ensure that our recommendations are implemented.

We thank CFC management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:AA:pn

Attachment

c: William T Fujioka, Chief Executive Officer
Sheryl L. Spiller, Director, Department of Public Social Services
William Charles Nicholas, Board President, CFC
Patti Oblath, Executive Director, CFC
Public Information Office
Audit Committee

**CONNECTIONS FOR CHILDREN
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM
CONTRACT COMPLIANCE REVIEW
FISCAL YEAR 2012-13**

ELIGIBILITY

Objective

Determine whether Connections for Children (CFC or Agency) provided services to individuals who met the CalWORKs Stage One Child Care Services (Stage One) Program eligibility requirements, and whether the child care providers were eligible to provide Stage One Program services.

Verification

We reviewed the case files for 14 (10%) of the 136 participants who received services, and 14 (11%) of the 126 child care providers who provided child care during June 2013 for documentation to confirm the participants' eligibility to receive and the providers' eligibility to provide Stage One Program services.

Results

CFC had documentation to support all 14 participants' eligibility to receive and all 14 providers' eligibility to provide Stage One Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether CFC provided the services required by their County contract and Stage One Program guidelines, and whether the Program participants and child care providers received the billed services.

Verification

We visited CFC's service site and reviewed the case files for 14 (10%) of the 136 participants who received services, and 14 (11%) of the 126 child care providers who provided child care during June 2013.

Results

CFC provided services in accordance with their County contract.

Recommendation

None.

STAFFING QUALIFICATIONS**Objective**

Determine whether CFC's staff had the qualifications required by their County contract.

Verification

We reviewed the personnel files for five (33%) of the 15 CFC employees who worked on the Stage One Program.

Results

CFC's staff had the qualifications required by their County contract.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether CFC properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and that bank account reconciliations were reviewed and approved by Agency management.

Verification

We interviewed CFC's management, and reviewed their financial records and June 2013 bank reconciliations.

Results

CFC properly recorded revenue in their financial records, deposited Department of Public Social Services (DPSS) payments into their bank account timely, and Agency management reviewed and approved monthly bank reconciliations.

Recommendation

None.

EXPENDITURES/COST ALLOCATION PLAN**Objective**

Determine whether expenditures charged to the Stage One Program were allowable under their County contract, properly documented, and accurately billed. In addition, determine whether the Agency prepared their Cost Allocation Plan (Plan) in compliance with their County contract, and used the Plan to allocate shared expenditures appropriately.

Verification

We interviewed CFC's personnel, reviewed the Agency's Plan, and financial records for 20 non-payroll expenditures, totaling \$19,622, that the Agency charged to the Stage One Program during Fiscal Year (FY) 2012-13.

Results

CFC's Plan was prepared in compliance with their County contract. However, the Agency inappropriately charged \$8,925 (46%) of the \$19,622 in non-payroll expenditures reviewed to the Stage One Program. Specifically, CFC inappropriately allocated \$8,925 to the Stage One Program for shared expenditures based on budgets and estimates, instead of using allowable methods based on actual conditions as required.

Recommendations**Connections for Children management:**

1. **Reallocate all shared expenditures charged to the Stage One Program during Fiscal Year 2012-13, provide the Department of Public Social Services with supporting documentation, and repay any overbilled amounts.**
2. **Ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether CFC's fixed assets and equipment purchased with Stage One funds were used for the Program, and were adequately safeguarded.

Verification

We interviewed Agency personnel, and reviewed the Agency's fixed assets and equipment inventory lists. We also performed a physical inventory of 16 items purchased with Stage One funds to verify the items exist and were being used as required.

Results

We noted significant weaknesses in CFC's controls over fixed assets and equipment. Specifically, CFC did not:

- Maintain a complete and accurate listing of fixed assets and equipment. We noted several items (desktop computers, monitors, and monitor stands) in use by Stage One Program employees that were not included in the inventory lists.
- Conduct a thorough inventory of fixed assets and equipment semi-annually as required. CFC management indicated that they conducted an annual inventory in September 2013. However, the inventory CFC conducted was based on incomplete and inaccurate inventory lists as noted above.
- Track the disposal of fixed assets and equipment purchased with Stage One Program funds. In addition, the Agency also did not obtain approval from DPSS to dispose of any items, or return the items to DPSS as required.

Recommendations

Connections for Children management:

3. **Develop and maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds and conduct semi-annual inventories of fixed assets and equipment.**
4. **Develop procedures to track the disposal of fixed assets and equipment purchased with Stage One Program funds.**
5. **Obtain approval from the Department of Public Social Services to dispose of any fixed assets or equipment purchased with Stage One**

Program funds, or return them to the Department of Public Social Services as required.

PAYROLL AND PERSONNEL

Objective

Determine whether CFC charged payroll costs to the Stage One Program appropriately, and maintained personnel files as required.

Verification

We traced the payroll costs for eight employees, totaling \$16,477, for June 2013 to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for five CFC Stage One Program staff.

Results

CFC maintained personnel files as required. However, CFC inappropriately allocated \$10,766 (65%) of the \$16,477 in payroll costs reviewed to the Stage One Program. Specifically, CFC allocated the payroll costs for six employees who worked on County and non-County programs based on estimates, instead of actual hours worked as required.

Recommendation

Refer to Recommendations 1 and 2.

CLOSE-OUT REVIEW

Objective

Determine whether CFC had any unspent revenue for the Stage One Program for FY 2012-13.

Verification

We traced the total revenues and expenditures from CFC's FY 2012-13 close-out report to the Agency's accounting records, and to DPSS' payment records.

Results

CFC's accounting records and DPSS' payment records indicated that they had \$7,332 in unspent revenue for FY 2012-13. However, CFC needs to revise their accounting records based on our recommendations above, provide DPSS with a revised close-out report for FY 2012-13, and work with DPSS to return or reinvest any unspent revenue.

Recommendation

- 6. Connections for Children management revise their accounting records based on the recommendations above, provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.**



May 16, 2014

Mr. John Naimo, Acting Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA 90071

**RE: Connections for Children
 Department of Public Social Services CALWORKs Stage One Child Care Services Program
 Provider
 Contract Compliance Review**

Dear Mr. Naimo:

This is in response to the above referenced report regarding the program and fiscal review of Connections for Children for Fiscal Year 2012-13.

The following is Connections for Children's response to the recommendations stated in the fiscal review report.

Recommendations

1. *Reallocate all shared expenditures charged to the Stage One Program during Fiscal Year 2012-13, provide the Department of Public Social Services with supporting documentation and repay any overbilled amounts.*
2. *Ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.*

Response to recommendations:

1. **Connections for Children will perform a time study to determine the allocation to its programs for shared expenditures. All shared expenditures previously charged to the Stage One Program will be reviewed based on the allocation calculated by the time study. Based on this calculation, any amount erroneously charged to the Department of Public Social Services will be repaid. All supporting documentation will be provided.**
2. **Connections for Children understands the importance of equitably applying its shared expenditures to its programs. Fiscal procedures have been changed to be based on actual conditions as required. This will ensure that costs billed to contracts are accurate, allowable, and adequately supported.**



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Recommendations

3. *Develop and maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds and conduct semi-annually inventories of fixed assets and equipment.*
4. *Develop procedures to track the disposal of fixed assets and equipment purchased with Stage One Program funds.*
5. *Obtain approval from the Department of Public Social Services to dispose of any fixed assets or equipment purchased with Stage One Program funds, or return them to the Department of Public Social Services as required.*

Response to recommendations

3. **Connections for Children understands the importance of maintaining a complete and accurate listing of its fixed assets and equipment. Fiscal procedures are being reviewed and updated to ensure that the inventory list reflects all current fixed assets and equipment in CFC's possession. CFC will conduct an inventory as required by contract, but no less than annually.**
4. **Connections for Children is reviewing and updating the fiscal procedures to ensure that fixed assets and equipment disposed are adequately tracked.**
5. **Connections for Children is aware of the importance of obtaining approval from the Department of Public Social Services to dispose of any fixed assets or equipment purchased with Stage One Program funds, or to return them to the Department of Public Social Services. Connections for Children assures that it will comply and adhere with this requirement.**

Recommendation

6. *CFC management review their accounting records based on the recommendations above, provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.*

Response to recommendations

6. **Connections for Children will review the allocations in their accounting records based on time study to be performed. Revisions to their accounting records will be done, as**



necessary. A revised close-out report for Fiscal Year 2012-13, will be prepared and provided to the Department of Public Social Services, if necessary. Any unspent revenue will be reinvested or repaid to the Department of Public Social Services.

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If you have any further questions or comments, please contact me at poblath@cfc-ca.org.

Sincerely,

A handwritten signature in blue ink that reads "Patti Oblath". The signature is fluid and cursive.

Patti Oblath
Executive Director